

# Revenue Outturn 2019/20

Report of the Finance Portfolio Holder

## Recommended:

1. That the Council's Revenue outturn for 2019/20, as shown in Annexes 1 and 2 to the report, be noted.
2. That the reasons for the budget variances, as shown in paragraph 3 of the report, be noted.
3. That the items shown in paragraph 3.21 of the report, totalling £93,800, be approved for carry forward into the 2020/21 revenue budget.
4. That the transfer to the Local Development Fund Reserve of £103,400 as detailed in paragraphs 3.10 and 3.14 of the report be approved.
5. That the transfer to the Chantry Centre Planned Maintenance Reserve of £445,900 as detailed in paragraph 3.11 of the report be approved.
6. That the transfer of £603,600 to the General Fund Reserve as detailed in paragraph 4 of the report be approved.

## SUMMARY:

- The Council's Revenue outturn for the year ended 31 March 2020 shows net General Fund expenditure of £11.298M (Annex 2).
- Following the completion of the revenue outturn work there is a positive variance to be allocated. Details of how this arose are discussed in more detail in paragraph 3. The utilisation of the variance is considered in paragraph 4.

## 1 Introduction

- 1.1 The General Fund covers all areas of the Council's revenue activities. This report summarises the total revenue expenditure for Services in 2019/20 which is summarised in Annex 1.
- 1.2 The summary in Annex 1 includes notional charges applied to the revenue account in respect of capital financing transactions and transfers to the pension reserve. Annex 2 shows the same information as Annex 1 with these charges stripped out. Throughout this report any comparisons between budget and actual expenditure will refer to the figures contained in Annex 2.
- 1.3 Where there have been significant variances from the original estimate to the final outturn figures, these are explained in paragraph 3.

1.4 The information in this report forms the basis of the Comprehensive Income and Expenditure Statement in the Council's Annual Statement of Accounts which is due to be audited in the coming months by Ernst & Young.

## 2 Background

2.1 The original revenue estimates for 2019/20 were approved by Council in February 2019. This report shows how the final figures compare to those approved in the original estimates and explains the reasons for significant variances.

2.2 The Council's Revenue outturn for 2019/20 shows a positive variance of £603,600 compared with the original estimate. This represents a 5.1% favourable variance on the Council's General Fund Requirements of £11.902M and details of the variance are explained in paragraph 3.

2.3 Annex 1 shows the full cost of Services which includes depreciation charges, charges to revenue for capital expenditure that does not generate new assets and notional adjustments in respect of the pension fund. Whilst it is important that these costs are known and included, they are also highly changeable and make comparisons with budgets very difficult.

2.4 Annex 2 strips out these charges to provide Councillors with a more understandable comparison of budget figures.

## 3 2019/20 Revenue Outturn

3.1 Annexes 1 and 2 show the revenue account outturn for 2019/20. They show a positive variance of £603,600 when compared with the original estimate.

3.2 The table below provides a summary of the main reasons for the variance with more detailed explanations in paragraphs 3.3 to 3.20:

	£'000
Employee costs (see paragraph 3.3)	474
Net additional property income (see paragraph 3.4)	200
Net additional income from Environmental Services (see paragraph 3.5)	123
Net reduction in income from planning fees and building control fees offset by Community Infrastructure Levy (CIL) admin income (see paragraph 3.6)	(77)
Income from car parking and penalty charge notices (see paragraph 3.7)	(145)
Income from pest control (see paragraph 3.8)	(33)

Income from Leisure contract (see paragraph 3.9)	(212)
Unspent income from New Forest Mitigation (see paragraph 3.10)	55
Net additional income from the Chantry Centre (see paragraph 3.11)	446
Savings on various computer costs (see paragraph 3.12)	64
18/19 Carry forwards not required (see paragraph 3.13)	183
Government grants (see paragraph 3.14)	67
Investment income and borrowing costs (see paragraph 3.15)	128
Provision for bad debts (see paragraph 3.16)	(115)
Transfer to Chantry Centre Planned Maintenance Reserve (see paragraph 3.11)	(446)
Transfer to Local Development Fund Reserve (see paragraphs 3.10 and 3.14)	(103)
Business rates (see paragraphs 3.17 – 3.20)	(22)
Other sundry variances	17
<b>Total surplus</b>	<b>604</b>

- 3.3 The employee costs budget for 2019/20 included a vacancy management provision set at 4% of the gross salary budget equating to £549,000. The actual outturn for employee costs has exceeded the provision by £474,000. In addition to the usual recruitment challenges across the authority, there have been some posts that have become vacant during the year and have been given up as savings as part of the 2020/21 budget process.
- 3.4 The net additional rental property income of £200,100 can be analysed as follows:
- The Council purchased a number of investment properties in 2019/20 which have been let to Valley Housing Limited. The additional income from these properties was £23,300 which was not included in the budget.
  - Other net additional rental income of £176,800 was received. This came from other corporate properties, Walworth and Portway Business Parks and other investment properties and mainly related to in year rent increases.

- 3.5 The net increase in income from Environmental Service is made up of £77,000 from the Garden Waste scheme, £36,000 from glass recycling, £40,000 from the management of dog bins and return of shopping trolleys, and £19,000 from the sale of bins offset by an increase in the cost of diesel of £49,000.
- 3.6 Income from planning application fees and building control fell short of the budget by £181,000 but was offset by additional CIL income of £104,000, of which £50,000 related to a one off adjustment from 2018/19.
- 3.7 Income from car parking and penalty charge notices fell short of the budget by £145,000.
- 3.8 Income from pest control contracts, and control of rodents and insects was lower than budgeted by £33,000.
- 3.9 The variance of £212,100 on the Leisure contract is primarily due to lost income, both earlier in the year while parts of the leisure facilities were closed due to agreed remedial works taking place to the Romsey Rapids pool area, and then later in the year when all leisure sites were closed to the public on 20 March 2020 due to the Covid-19 pandemic lockdown arrangements.
- 3.10 £55,300 of New Forest Mitigation income remains unspent at the end of 2019/20. It is recommended to transfer this to the Local Development Fund Reserve.
- 3.11 Net additional income from the Chantry Centre is £445,900. As per the report to Council on 13 March 2019, it is recommended to transfer this additional income to the Chantry Centre Planned Maintenance Reserve.
- 3.12 There were savings in IT on various licences and software applications of £33,000 and in Revenues on computer costs of £31,000.
- 3.13 Two items were carried forward from the 2018/19 budget which were not required in 2019/20:
- £10,500 was carried forward for computer equipment in Housing & Environmental Health
  - £172,500 was carried forward in Planning Policy & Economic Development for the New Forest Mitigation. This was also treated as a receipt in advance in 2018/19 so was accounted for twice.
- 3.14 Net unbudgeted government grants of £67,000 have been received in the year. This includes:
- Neighbourhood Planning Referendum grants of £40,000 were received in respect of two local referendums. After expenditure against this of £5,900 the net amount of £34,100 is recommended to be transferred to the Local Development Fund reserve to be used for future neighbourhood planning expenses.

- A Planning Project grant of £14,000 was received by Planning Policy & Economic Development. It is recommended to transfer the full amount to the Local Development Fund Reserve.
  - A Levy Surplus Allocation of £35,900 was budgeted for 2019/20 as notified from MHCLG as part of the 2019/20 Local Government Finance Settlement. This was actually received at the end of March 2019 and was included in the 2018/19 revenue figures. The grant received in March 2020 was £8,000, £27,900 lower than the budgeted figure.
  - The amount received for the Council Tax Annex Discount grant was £33,100 higher than budgeted.
- 3.15 Net investment income received in the year was £190,000 higher than anticipated. This is partially offset by a slight increase in borrowing and related costs of £62,000 due to a loan being taken out that wasn't included in the original budget.
- 3.16 An increase of £115,000 is required to ensure that the bad debt provision is at the required level at the end of the year.
- 3.17 Transactions through the General Fund in relation to business rates income are difficult to predict and extremely volatile. Since 2015/16, the Council has experienced business rate growth and is therefore required to pay an immediate NDR Surplus Levy to Government. In addition, the Council receives grants for small business rate and other reliefs, and is entitled to retain 100% of business rates relating to renewable energy schemes within the Borough. These transactions are managed through both the General Fund and the Collection Fund Equalisation Reserve.
- 3.18 Business rates income is extremely vulnerable to the level of appeals that may occur as a result of the 2017 revaluation exercise. In addition, the Government maintains the power to take away all of the accumulated growth in income generated since 2013 in a reset of the Business Rates Retention Scheme. The reset was planned for 2020/21 but has been put back due to the Covid-19 pandemic. The Council maintains the Collection Fund Equalisation Reserve to try to smooth the impact of these unknowns.
- 3.19 In 2019/20, the Council has continued to experience business rate growth and is still required to pay a surplus levy to Government. However, the impact of the uncertainty around the provision for appeals means that the business rates collection fund remains in a deficit of £2.468M. The Council will repay their share of this deficit, £987,000 in 2020/21 and 2021/22.
- 3.20 The variances against budget are detailed in the table below.

	£'000
Lower than budgeted Government grants received	(59)
Reduction in provision for surplus levy	37
<b>Net impact of business rates on General fund in 2019/20</b>	<b>(22)</b>

- 3.21 Five items have been identified where a budget was included in the 2019/20 estimate but was not spent by the end of the year as per the table below. The total of £93,800 is recommended to be carried forward into 2020/21.

	£'000
HR - Payroll project	8
Environmental Services – unspent funds from trunk road litter removal to be spent on a one-off removal of chewing gum from Andover Town Centre	10
Housing & Environmental Health – relating to recruitment costs	5
IT – Project Consultancy	22
Community & Leisure – various snagging works	49
<b>Total to be carried forward to 2020/21</b>	<b>94</b>

#### 4 Transfer to / from Reserves

##### General Reserves

- 4.1 The balance at the start of the year on unallocated general reserves was £2M. This represents the Council's working balance to help cushion the impact of uneven cash flows and minimise unnecessary temporary borrowing.
- 4.2 When the Council set its revenue budget for 2020/21 on 26 February, the Head of Finance presented his usual "**Statement on the Robustness of Estimates and Adequacy of Revenue Reserves**". At the time, there was no indication that there would be an imminent national emergency situation caused by the Covid-19 pandemic. Since the UK lockdown, which started on 23rd March, the Council has faced extreme financial pressures in terms of lost income, deferred income and additional expenditure, none of which had been anticipated in setting the budget. Current forecasts show that even with Government support of £1.3M, the Council will still have to cope with net costs of at least £3.5M during 2020/21. In addition to this, it is estimated that deferred rents, business rates, council tax and business rate reliefs will have cashflow impacts of £5.5M (estimate to end of May 2020).
- 4.3 Given that the recovery phase is likely to be prolonged, it is important that the Council has the necessary resources in place to manage the significant adverse effect on its budgets. For that reason, it is recommended that the full surplus of £603,600 from 2019/20 is transferred to the Council's General Fund Reserve. The Council's estimates and adequacy of reserves are now being reviewed on a monthly basis and regular reports are being sent to the Ministry of Housing, Communities and Local Government (MHCLG). It is hoped that further Government support will be given to Local Authorities in due course, but if not, it is inevitable that further draws on reserves will become necessary before the end of the year.

## 5 Resource Implications

- 5.1 This report shows that the Council had a budget surplus in 2019/20 of £603,600. This amount will be transferred to the General Fund Reserve in order to ensure that Council has the necessary resources in place to manage the significant adverse effect of the Covid-19 pandemic on its budgets.
- 5.2 Some of the variances that have been identified throughout this report have already been taken into account in setting the 2020/21 budget.

## 6 Risk Management

- 6.1 An evaluation of the risks associated with the matters in this report indicate that further risk assessment is not needed because the issues covered do not represent significant risks.

## 7 Equality Issues

- 7.1 An EQIA screening has been completed in accordance with the Council's EQIA methodology and no potential for unlawful discrimination and/or low level or minor negative impact have been identified, therefore a full EQIA has not been carried out.

## 8 Conclusion and reasons for recommendation

- 8.1 This report shows that actual net General Fund expenditure in 2019/20 was £603,600 less than the Original Estimate and explains the significant causes of this variance. The report recommends a transfer of the full amount to the General Fund Reserve.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
None			
<u>Confidentiality</u>			
It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	2	File Ref:	N/A
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